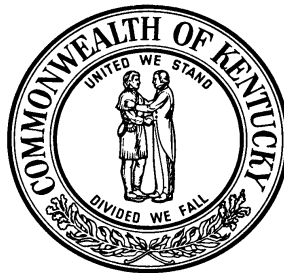


**REPORT OF THE AUDIT OF THE
CLAY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through July 2, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLAY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through July 2, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Clay County Sheriff for the period January 1, 2007 through July 2, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,128,928 for the districts for 2006 taxes, retaining commissions of \$46,329 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,079,404 to the districts for 2006 Taxes. A refund of \$57 is due to the Sheriff and taxes of \$25 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Deposit Tax Receipts In A Timely Manner
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of March 12, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$254,574

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the Clay County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through July 2, 2007. This tax settlement is the responsibility of the Clay County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clay County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through July 2, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Deposit Tax Receipts In A Timely Manner
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

November 6, 2008

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through July 2, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred to Incoming Sheriff	\$ 70,781	\$ 133,475	\$ 436,072	\$ 123,916
Franchise Taxes	19,020	41,301	118,299	
Additional Billings	38	72	235	65
Unmined Coal	1,132	2,182	7,051	1,933
Oil and Gas Property Taxes	34,021	64,414	211,840	58,063
Penalties	3,601	6,787	22,182	6,262
Gross Chargeable to Sheriff	128,593	248,231	795,679	190,239
<u>Credits</u>				
Exonerations	1,751	3,296	10,839	2,970
Discounts	716	1,393	4,460	1,109
Delinquents:				
Real Estate	16,331	30,585	100,586	27,570
Tangible Personal Property	360	875	2,243	1,165
Unmined Coal	206	390	1,284	352
Delinquent Additional Bills	111	170	674	196
Franchise Taxes	2,505	6,081	15,596	
Total Credits	21,980	42,790	135,682	33,362
Taxes Collected	106,613	205,441	659,997	156,877
Less: Commissions *	4,531	8,731	26,400	6,667
Taxes Due	102,082	196,710	633,597	150,210
Taxes Paid	101,789	196,184	631,796	149,635
Refunds (Current and Prior Year)	289	519	1,787	632
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Audit	\$ 4	\$ 7	\$ 14	\$ (57)

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period January 1, 2007 Through July 2, 2007
(Continued)

* Commissions:

4.25% on \$ 468,931

4% on \$659,997

** Special Taxing Districts:

Library District	\$	2
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Health District		2
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Extension District		3
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Due Districts	\$	<u>7</u>
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CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

July 2, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
July 2, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 2, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 12, 2007, public funds were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$254,574

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through July 2, 2007.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 2, 2007 through October 2, 2007.

C. Oil And Gas Taxes

The collection period for gas tax collections was January 3, 2007 through July 2, 2007. The collection period for oil tax collections was January 3, 2007 through July 2, 2007.

Note 4. Interest Income

The Sheriff earned \$509 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Sheriff collected \$27,223 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Sheriff collected \$6,780 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of July 2, 2007, the Sheriff owed \$1,170 in advertising costs to the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clay County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through July 2, 2007, and have issued our report thereon dated November 6, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through July 2, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Tax Receipts In A Timely Manner

The Clay County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 6, 2008

COMMENTS AND RECOMMENDATIONS

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through July 2, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Deposit Tax Receipts In A Timely Manner

During the collection of 2006 taxes the Sheriff did not always make daily deposits. The Sheriff also deposited advertising fees directly into the fee account. The Department for Local Government has established minimum requirements for officials handling public funds, which include, "daily deposits intact into a federally insured banking institution." We recommend the Sheriff deposit tax receipts on a daily basis as required. We also recommend advertising fees be deposited into the tax account and properly accounted for prior to payment into the Sheriff's fee account.

Sheriff's Response: Was not aware of all the accounting procedures. We have already corrected the way advertising fees are deposited beginning with the 2007 tax year.

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties over accounting functions. The responsibilities of two (2) Sheriff's office employees included opening mail, collecting taxes, and balancing cash registers at the end of the day. One of these employees was also responsible for recording receipts, preparing deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers, and preparing financial reports.

Segregation of duties over the accounting functions described above is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involved in receiving and recording daily receipts, preparing bank deposits, writing checks, posting transactions to the ledgers, reconciling bank records to the ledgers, and preparing financial reports. If these duties cannot be separated, strong oversight over those areas should be provided to the employee or employees responsible for these duties. If the Sheriff implements oversight instead of segregation of duties, this should be documented on the appropriate source documents.

Sheriff's Response: We are aware of all of the above and are doing our best to make the necessary corrections as our budget allows.

